



January 13th, 2011

Here is our newsletter for the 1st quarter of 2011.

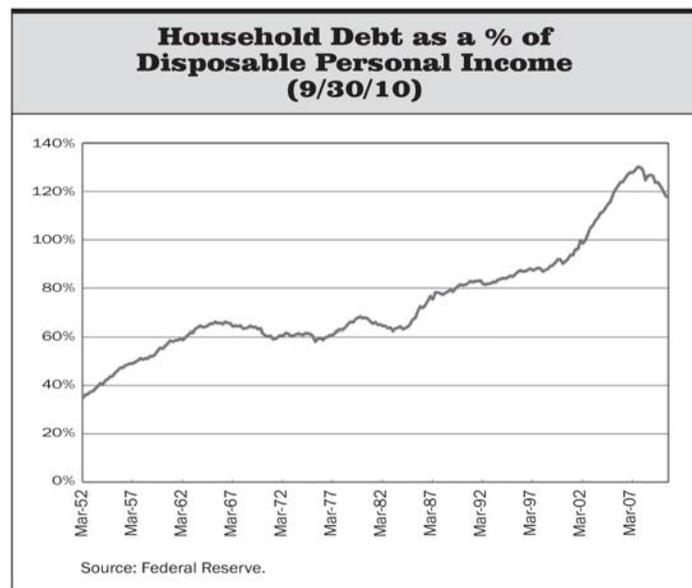
The Markets

The equity markets finished an up and down year with a strong 4th quarter to finish the year up 14.9% for large-cap U.S. stocks and 11.1% for foreign stocks. High grade bonds had a good year with a return of 6.4% but high yield and emerging market debt returned 15.2% and 15.7% respectively. Most of the equity market returns for the year came in the 4th quarter while high grade bonds lost value in the 4th quarter.

For the quarter our equity-tilted composite gained 4.3% compared to 7.5% for the benchmark and our balanced composite gained 2.1% vs. 5.8% for the benchmark. For the year our equity-tilted composite gained 10.7% compared to 13.1% for the benchmark and our balanced composite gained 8.6% vs. 11.8% for the benchmark. The underperformance can be largely attributed to our underweight to equities in preference to bonds. While our overweight to bonds worked very well through 2008, 2009 and through the first half of this year, most bond funds either lost value or only had a small gain in the 4th quarter.

Our Outlook

I went back to our outlook one year ago in our newsletter and I could almost use the same outlook for now. The economies in the U.S. and the rest of the developed world are recovering, but at a slow pace that will mean many years for the economy to fully recover from the financial crisis that hit in 2008. This is primarily due to the mountain of debt households and banks piled up over many years. The chart shows the deleveraging process has started but is far from over.



Debt relative to disposable income is improving but still extremely high.

Our government is doing everything it can to stimulate the economy in the short run from keeping interest rates low to buying government debt and private mortgages to continuing to cut taxes for everyone. While we agree this may improve the prospects for the economy in the short run we feel that this simply kicks the can down the road awhile and will only make it longer for our economy to get back to normal.

The annual Southwest Business Forum was held here in Durango on January 6th where local, state and national economists presented their outlook for the local and national economies. Nationally the outlook for 2011 is a continued slow recovery, avoiding a double-dip recession in the economy. For Colorado, the recovery is lagging some compared to the national economy and thus a slight increase in unemployment is in the forecast. Southwest Colorado is seen to lag Colorado with retail sales still dropping slightly and unemployment rising. You can find their presentations at <http://soba.fortlewis.edu/FCEQ/bizforum/presentations.html>.

For housing, Scott Anderson with Wells Fargo is looking for the recent downdraft in house prices nationally to continue, resulting in a double-dip for house prices. Luke Miller updated his housing outlook for homes in Durango and is projecting, even though prices have already dropped 23% from their peak, another 20% drop in median house prices over the next few years, based on price-to-rent ratios moving back to normal.

Portfolio Positioning

We remain cautious on the stock market. Even with the better than expected earnings growth for corporations during 2010, Shiller P/E ratios have increased to about 22 for U.S. stocks. The major change in our outlook from one year ago is in the bond market where we see lower than average returns going forward. We remain positive on high yield corporate and emerging market bonds but realize we cannot expect more than upper single digit returns for the next few years. So while we have been using bonds as a substitute for some of our equity allocation, we will be making some changes to our portfolio to reduce our bond exposure in preference to some alternatives. While we don't agree with the talk on the street about a bond market bubble, we do realize one can lose money in the bond market and we see opportunities in alternative strategies.

So where do we go to find returns beyond the stock and bond market? There are several funds we will be adding to the portfolio soon that will add diversification to our mostly stock and bond portfolios. All-asset, market neutral, long-short and hedged equity funds will be used. One of the alternative funds we are adding to the portfolio is through a 3rd party manager. The manager, Swan Consulting is located here in Durango and has been managing portfolios under what I would call a hedge-equity strategy for 13 years. They have a strong track record and manage over \$80 million in client funds. You can find details on their fund on their website at <http://www.swanconsultinginc.com/>.

Over the last 13 years thru bull and bear markets the fund has earned returns that have exceeded the S&P 500 index and done so with about one half the risk of the index as measured by the fund volatility.

Building Your Own Pension

Since few working people these days are in a pension plan sponsored by their employer, a big part of my business is helping clients build their own pension to secure their retirement. For most this is accomplished by investing in company retirement plans, IRAs and other tax-deferred accounts where you can cut your tax bill while saving for retirement.

One of the recommendations I made recently for a client was to install a Defined Benefit Pension plan for their business. The owners will defer part of their salaries, and as a result will cut their income taxes by about \$70,000 every year until they retire in about 10 years. When the clients retire they can simply rollover the pension assets into their own IRAs for them to use as they see fit in retirement. These owner-only plans are not much more complicated and costly to set up and run as other types of retirement plans and the allowable contributions are much higher. If you would like to learn more about this and other options for business owners, give me a call.

2010 Tax Relief Act

The President and congress recently came up with a compromise on what to do with the Bush tax cuts set to expire at the end of 2010. The 2010 Tax Relief Act not only extended the Bush tax cuts for two more years, but also cut payroll taxes for everyone for one year, reduced the estate tax, and extended many business tax breaks set to expire. The hope is to put money in the hands of individuals and businesses, produce jobs and spur economic growth enough to pay for tax cuts. I am sure it will lift the economy in the short run. However, the long-term effects are far from certain. I am hopeful our government will soon enact substantial tax reform along the lines recommended by the President's non-partisan commission last December. To see an overview of the new law, you can go to my website at www.CompFinancial.com on the What You Need to Know page under Tax Issues.

Thank you for your continued interest and give me a call anytime to discuss any of your specific needs.

Sincerely,

Stan Johnson, CFP(R)
Comprehensive Financial, Inc.
Registered Investment Advisor